

**CITY OF HUDSON**  
**LENAWEE COUNTY, MICHIGAN**  
**ANNUAL FINANCIAL REPORT**  
**JUNE 30, 2007**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF HUDSON	County LENAWEE
Fiscal Year End JUNE 30, 2007	Opinion Date AUGUST 10, 2007	Date Audit Report Submitted to State OCTOBER 31, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

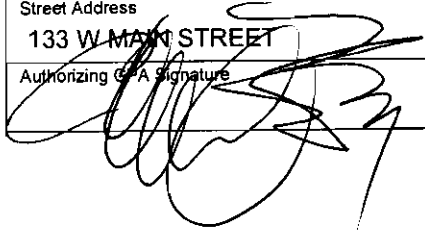
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) PHILIP R RUBLEY, CPA		Telephone Number 517-458-2274	
Street Address 133 W MAIN STREET		City MORENCI	State MI
Authorizing CPA Signature 		Printed Name PHILIP R RUBLEY	Zip 49256
		License Number 9223	

**CITY OF HUDSON  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2007**

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**CITY OF HUDSON, MICHIGAN**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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**Using This Annual Report**

The annual report consists of a series of financial statements. The statement of net assets and the statement of activities are both new and provide information about the activities of City of Hudson, Michigan government-wide basis. They are designed to present a longer-term view of the City's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

**Overview Of The Financial Statements**

The City's basic financial statements are comprised of three components:

- A) Government-wide financial statements.
- B) Fund financial statements.
- C) Notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The City maintains 14 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, ambulance, income tax, major street and local street each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

**Proprietary Funds.** The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its wastewater and water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its public works and general maintenance equipment. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City maintains 3 fiduciary funds.

**CITY OF HUDSON, MICHIGAN**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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**Notes To The Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement of some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, parks and recreation and community development. The business-type activities of the City include water and waste water activities reflected in the utilities fund.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate authority - the Local Development Finance Authority - for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories; governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

#### **Other Information**

The City has reported under required supplementation information, information about the General Fund and Major Type Funds, and Combining Balance Sheets and Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Type Governmental Funds.

**CITY OF HUDSON, MICHIGAN**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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**The City As A Whole**

The City's net assets for the year ended June 30, 2007 increased by .79% over the prior year, and management feels that even though the economic conditions have been slightly depressed, that the City was fiscally stable.

The governmental activities reflect net assets of \$4,191,027 and the business-type (utilities) of \$4,496,723.

By far the largest portion of the City's net assets (74 percent) reflects its investment in capital assets (e.g. land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire these assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF HUDSON, MICHIGAN**  
**Management's Discussion and Analysis**  
**June 30, 2007**

**CITY OF HUDSON, MICHIGAN NET ASSETS**

**Governmental Activities**

	<b><u>2007</u></b>	<b><u>2006</u></b>
Current and Other Assets	\$2,266,394	\$2,073,509
Capital Assets	<u>4,191,027</u>	<u>4,234,783</u>
<b>Total Assets</b>	<u>6,457,421</u>	<u>6,308,292</u>
Long-Term Liabilities Outstanding	529,125	465,000
Other Liabilities	<u>106,534</u>	<u>67,432</u>
<b>Total Liabilities</b>	<u>635,659</u>	<u>532,432</u>
<b><u>Net Assets</u></b>		
Invested in Capital Assets, Net of Related Debt	3,690,506	3,769,783
Restricted	86,343	194,709
Unrestricted	<u>2,044,913</u>	<u>1,811,368</u>
<b>Total Net Assets</b>	<u>\$5,821,762</u>	<u>\$5,775,860</u>

**Business Activities**

	<b><u>2007</u></b>	<b><u>2006</u></b>
Current and Other Assets	\$ 206,573	\$ 273,415
Capital Assets	<u>4,496,723</u>	<u>4,703,729</u>
<b>Total Assets</b>	<u>4,703,296</u>	<u>4,977,144</u>
Long-Term Liabilities Outstanding	1,449,275	1,521,665
Other Liabilities	<u>19,517</u>	<u>28,401</u>
<b>Total Liabilities</b>	<u>1,468,792</u>	<u>1,550,066</u>
<b><u>Net Assets</u></b>		
Invested in Capital Assets, Net of Related Debt	3,050,058	3,182,064
Restricted	14,878	14,878
Unrestricted	<u>169,568</u>	<u>230,136</u>
<b>Total Net Assets</b>	<u>\$3,234,504</u>	<u>\$3,427,078</u>



**CITY OF HUDSON, MICHIGAN**  
**Management's Discussion and Analysis**  
**June 30, 2007**

**CITY OF HUDSON, MICHIGAN NET ASSETS**

**Governmental Activities**

	<b><u>2007</u></b>	<b><u>2006</u></b>
<b><u>Revenue</u></b>		
Program Revenue:		
Charges for Services	\$1,004,893	\$1,097,719
Operating Grants and Contributions	186,819	182,305
Capital Grants and Contributions	150,771	76,524
General Revenue:		
Property Taxes/Special Assessments	1,060,898	1,229,932
Grants and Contributions Not		
Restricted To Specific Program	283,422	287,524
Other	101,136	84,359
<b>Total Revenue</b>	<b><u>2,787,939</u></b>	<b><u>2,958,363</u></b>
<b><u>Expenses</u></b>		
General Government	490,359	566,729
Public Safety	893,647	665,845
Public Works	812,525	888,257
Community and Economic Development	12,965	21,389
Recreation and Culture	243,646	214,220
Interest on Long-Term Debt	19,519	17,143
Other Functions	148,099	185,966
<b>Total Expenses</b>	<b><u>2,620,760</u></b>	<b><u>2,559,549</u></b>
<b>Increase (Decrease) In Net Assets</b>		
<b>    Before Transfers</b>	<b><u>167,179</u></b>	<b><u>398,814</u></b>
<b>Transfers (Out)</b>	<b><u>(121,277)</u></b>	<b><u>(105,832)</u></b>
<b>Increase In Net Assets</b>	<b><u>45,902</u></b>	<b><u>292,982</u></b>
<b>Net Assets Beginning of Year</b>	<b><u>5,775,860</u></b>	<b><u>5,482,878</u></b>
<b>Net Assets End of Year</b>	<b><u>\$5,821,762</u></b>	<b><u>\$5,775,860</u></b>

**CITY OF HUDSON, MICHIGAN**  
**Management's Discussion and Analysis**  
**June 30, 2007**

**CITY OF HUDSON, MICHIGAN NET ASSETS**

	<u><b>Business-Type Activities</b></u>	
	<u><b>2007</b></u>	<u><b>2006</b></u>
<u><b>Revenue</b></u>		
Program Revenue:		
Charges for Services	\$ 430,333	\$ 524,049
General Revenue:		
Interest Income	<u>11,818</u>	<u>8,983</u>
<b>Total Revenue</b>	<u>442,151</u>	<u>533,032</u>
<u><b>Expenses</b></u>		
Interest on Long-Term Debt	37,395	42,408
Utilities Expenses	<u>718,607</u>	<u>712,660</u>
<b>Total Expenses</b>	<u>756,002</u>	<u>755,068</u>
<b>(Decrease) In Net Assets Before Transfers</b>	<u>(313,851)</u>	<u>(222,036)</u>
<b>Transfers (Out)</b>	<u>121,277</u>	<u>105,832</u>
<b>(Decrease) In Net Assets</b>	<u>(192,574)</u>	<u>(116,204)</u>
<b>Net Assets Beginning of Year</b>	<u>3,427,078</u>	<u>3,543,282</u>
<b>Net Assets End of Year</b>	<u>\$3,234,504</u>	<u>\$3,427,078</u>

**Government Activities**

Government activities increased the City's net assets by \$45,902.

**Business-Type Activities**

Business-type activities (decreased) the City's net assets by (\$192,574).

**The City's Funds**

Our analysis of the City's funds begins on Page 10, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council and management creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages, etc.

**CITY OF HUDSON, MICHIGAN**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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**General Fund Budgetary Highlights**

Differences between the original budget and amended budget were immaterial.

**Capital Assets And Debt Administration**

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounted to \$8,687,750 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's investment in capital assets for the current year was 3.72%.

Long-term debt of the City decreased by \$194,539 (see Note 8 of the basic financial statements). There was no new debt incurred in the fiscal year ended June 30, 2007.

**Economic Factors And Next Year's Budget And Rates**

The City's budget for 2007-2008 fiscal year has taken in consideration, the economic condition of the State of Michigan, anticipating reduced state share revenues. This will require close tabs on expenditures for the upcoming year and adjustments will be made to mirror, when possible, the revenue base, with expenses.

**Contacting The City's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at 121 N. Church Street, Hudson, Michigan 49247.

# PHILIP R. RUBLEY

— *Certified Public Accountant* —

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FAX 517/458-6353

PHILIP R. RUBLEY, C.P.A.

MEMBERS OF  
AMERICAN INSTITUTE OF C.P.A.'S  
& THE MICHIGAN ASSOCIATION OF C.P.A.'S

**August 10, 2007**

**Honorable Mayor and Members  
Of The City Council  
City of Hudson  
121 N. Church St.  
Hudson, Michigan 49247**

## **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hudson, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hudson, Michigan, management. Our responsibility is to express opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of the City of Hudson, Michigan, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

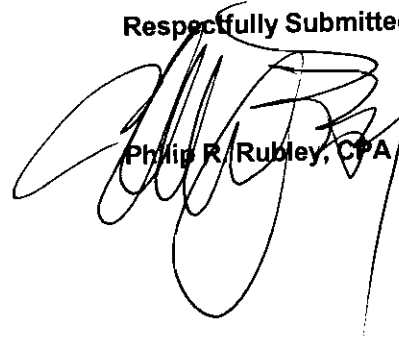
The management's discussion and analysis and budgetary comparison information on pages 1 through 7, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hudson, Michigan basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

**City of Hudson**  
**August 10, 2007**

The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Respectfully Submitted,**

A handwritten signature in black ink, appearing to read 'Philip R. Rubley', is written over the printed name. The signature is stylized with large, sweeping loops.

**Philip R. Rubley, CPA**

PRR/cab

**CITY OF HUDSON, MICHIGAN**  
**Government-wide Statement of Net Assets**  
**June 30, 2007**

	<b><u>Governmental Activities</u></b>	<b><u>Business-Type Activities</u></b>	<b><u>Total</u></b>	<b><u>Component Unit</u></b>
<b><u>Assets</u></b>				
Cash and Equivalents	\$1,941,049	\$ 60,155	\$ 2,001,204	\$438,409
Receivables - Net	319,345	113,880	433,225	39,673
Inventory	3,951	14,068	18,019	---
Prepaid Items and Other Assets	2,278	3,363	5,641	1,750
Internal Balances	(229)	229	---	---
Restricted Cash	---	14,878	14,878	---
Capital Assets Not Being Depreciated	150,000	---	150,000	---
Capital Assets Being Depreciated - Net	<u>4,041,027</u>	<u>4,496,723</u>	<u>8,537,750</u>	<u>---</u>
<b>Total Assets</b>	<u>6,457,421</u>	<u>4,703,296</u>	<u>11,160,717</u>	<u>479,832</u>
<b><u>Liabilities</u></b>				
Accounts Payable and Accrued Expenses	106,534	19,517	126,051	---
Long-Term Liabilities:				
Due Within One Year	97,981	75,000	172,981	---
Due In More Than One Year	<u>431,144</u>	<u>1,374,275</u>	<u>1,805,419</u>	<u>---</u>
<b>Total Liabilities</b>	<u>635,659</u>	<u>1,468,792</u>	<u>2,104,451</u>	<u>---</u>
<b><u>Net Assets</u></b>				
Invested In Capital Assets, Net of Related Debt	3,690,506	3,050,058	6,740,564	---
Restricted For Economic Growth - LDFA	---	---	---	479,832
Debt Service	86,343	---	86,343	---
Replacement	---	14,878	14,878	---
Unrestricted	<u>2,044,913</u>	<u>169,568</u>	<u>2,214,481</u>	<u>---</u>
<b>Total Net Assets</b>	<u>\$5,821,762</u>	<u>\$3,234,504</u>	<u>\$ 9,056,266</u>	<u>\$479,832</u>

**CITY OF HUDSON, MICHIGAN**  
**Government-wide Statement of Activities**  
**For The Year Ended June 30, 2007**

<b><u>Functions/Programs</u></b>	<b><u>Expenses</u></b>	<b><u>Charges For Services</u></b>	<b><u>Operating Grants And Contributions</u></b>	<b><u>Capital Grants And Contributions</u></b>	<b><u>Net (Expenses) Revenues</u></b>
<b><u>Primary Government</u></b>					
<b><u>Governmental Activities:</u></b>					
General Government	\$ 490,359	\$ 478,043	\$ ---	\$ ---	\$ (12,316)
Public Safety	893,647	303,508	---	1,155	(588,984)
Public Works	812,525	131,139	179,852	149,616	(351,918)
Community and Economic Development	12,965	---	---	---	(12,965)
Recreation and Culture	243,646	92,203	6,967	---	(144,476)
Interest on Long-Term Debt	19,519	---	---	---	(19,519)
Other Functions	269,376	---	---	---	(269,376)
<b>Total Governmental Activities</b>	<b><u>2,742,037</u></b>	<b><u>1,004,893</u></b>	<b><u>186,819</u></b>	<b><u>150,771</u></b>	<b><u>(1,399,554)</u></b>
<b><u>Business-Type Activities:</u></b>					
Utilities	718,607	430,333	121,277	---	(166,997)
Interest on Long-Term Debt	37,395	---	---	---	(37,395)
<b>Total Business-Type Activities</b>	<b><u>756,002</u></b>	<b><u>430,333</u></b>	<b><u>121,277</u></b>	<b><u>---</u></b>	<b><u>(204,392)</u></b>
<b>Total Primary Government</b>	<b><u>\$3,498,039</u></b>	<b><u>\$1,435,226</u></b>	<b><u>\$308,096</u></b>	<b><u>\$ 150,771</u></b>	<b><u>\$ (1,603,946)</u></b>
<b><u>Component Unit:</u></b>					
LDFA	<u>68,923</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>(68,923)</u>
<b>Total Component Unit</b>	<b><u>\$ 68,923</u></b>	<b><u>\$ ---</u></b>	<b><u>\$ ---</u></b>	<b><u>\$ ---</u></b>	<b><u>\$ (68,923)</u></b>

**CITY OF HUDSON, MICHIGAN**  
**Government-wide Statement Of Activities (Concluded)**  
**For The Year Ended June 30, 2007**

	<u>Primary Government</u>			<u>Component</u>
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>	<u>Unit</u>
<u>Changes In Net Assets</u>	<u>Activities</u>	<u>Activities</u>		
Net (Expense) Revenue	\$ (1,399,554)	\$ (204,392)	\$ (1,603,946)	\$ (68,923)
General Revenues:				
Tax Collections	1,060,898	---	1,060,898	543,155
Grants and Contributions				
Not Restricted To				
Specific Programs	283,422	---	283,422	---
Earnings and Rentals	<u>101,136</u>	<u>11,818</u>	<u>112,954</u>	<u>5,600</u>
<b>Total General Revenues, Contributions and Transfers</b>	<u>1,445,456</u>	<u>11,818</u>	<u>1,457,274</u>	<u>548,755</u>
<b>Change In Net Assets</b>	45,902	(192,574)	(146,672)	479,832
<b>Net Assets, Beginning of Year</b>	<u>5,775,860</u>	<u>3,427,078</u>	<u>9,202,938</u>	<u>---</u>
<b>Net Assets, End of Year</b>	<u>\$ 5,821,762</u>	<u>\$3,234,504</u>	<u>\$ 9,050,266</u>	<u>\$479,832</u>



**CITY OF HUDSON, MICHIGAN**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2007**

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	<b><u>General Fund</u></b>	<b><u>Ambulance Fund</u></b>	<b><u>Income Tax Fund</u></b>
<b><u>ASSETS</u></b>			
Cash and Cash Equivalents	\$598,308	\$ ---	\$472,446
Prepaid Expenses	1,432	---	---
Receivables - Net	93,972	148,597	6,233
Due From Other Funds	2,966	---	---
Receivable From Other Governments	37,376	---	---
Inventories	<u>3,951</u>	<u>---</u>	<u>---</u>
<b>Total Assets</b>	<b><u>\$738,005</u></b>	<b><u>\$148,597</u></b>	<b><u>\$478,679</u></b>
<b><u>LIABILITIES</u></b>			
Accounts Payable/Accrued Liabilities	\$ 30,912	\$ 22,223	\$ ---
Due to Other Funds	---	6,964	---
Deferred Revenue	<u>66,064</u>	<u>24</u>	<u>14,342</u>
<b>Total Liabilities</b>	<b><u>96,976</u></b>	<b><u>29,211</u></b>	<b><u>14,342</u></b>
<b><u>FUND BALANCES</u></b>			
Reserved for Debt Service	---	---	---
Unreserved	<u>641,029</u>	<u>119,386</u>	<u>464,337</u>
<b>Total Fund Balances</b>	<b><u>641,029</u></b>	<b><u>119,386</u></b>	<b><u>464,337</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$738,005</u></b>	<b><u>\$148,597</u></b>	<b><u>\$478,679</u></b>

The notes to financial statements are an integral part of this statement.

<b>Major Street Fund</b>	<b>Local Street Fund</b>	<b>Other Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$146,924	\$66,245	\$603,635	\$1,887,558
---	---	370	1,802
---	---	1,610	250,412
---	---	4,712	7,678
21,292	7,990	---	66,658
---	---	---	3,951
<u>\$168,216</u>	<u>\$74,235</u>	<u>\$610,327</u>	<u>\$2,218,059</u>
\$ 251	\$ 235	\$ 51,854	\$ 105,475
---	---	467	7,431
---	---	14,864	95,294
<u>251</u>	<u>235</u>	<u>67,185</u>	<u>208,200</u>
---	---	86,343	86,343
<u>167,965</u>	<u>74,000</u>	<u>456,799</u>	<u>1,923,516</u>
<u>167,965</u>	<u>74,000</u>	<u>543,142</u>	<u>2,009,859</u>
<u>\$168,216</u>	<u>\$74,235</u>	<u>\$610,327</u>	<u>\$2,218,059</u>

**CITY OF HUDSON, MICHIGAN**  
**Reconciliation of Fund Balances On The Balance Sheet For Governmental Funds**  
**To Net Assets Of Governmental Activities On The Statement of Net Assets**  
**June 30, 2007**

---

**Fund Balances – Total Governmental Funds**

\$ 2,009,859

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

<b>Add:</b>	Capital Assets	8,242,143
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<b>Deduct:</b>	Accumulated Depreciation	(4,144,847)
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An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

<b>Add:</b>	Net assets of governmental activities accounted for in the internal service fund.	149,497
-------------	---	---------

Certain liabilities, such as bonds payable, notes payable, are not due and payable in the current period and therefore are not reported in the funds.

<b>Deduct:</b>	Bonds and notes payable	(500,521)
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<b>Deduct:</b>	Accrued interest on bonds	(1,059)
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<b>Deduct:</b>	Compensated absences long-term	(28,604)
----------------	--------------------------------	----------

Revenue that has been billed as a receivable, but not collected until later years, was not reported in the funds.

<b>Add:</b>	Deferred Revenue	<u>95,294</u>
-------------	------------------	---------------

**Net Assets of Governmental Activities**

\$ 5,821,762

**CITY OF HUDSON, MICHIGAN**  
**Governmental Funds**  
**Statement of Revenue, Expenditures, and Changes In Fund Balances**  
**For The Year Ended June 30, 2007**

	<b><u>General Fund</u></b>	<b><u>Ambulance Fund</u></b>	<b><u>Income Tax Fund</u></b>
<b><u>REVENUES</u></b>			
Taxes	\$ 618,858	\$ 95,344	\$ 338,947
Intergovernmental	283,422	---	---
Grants	1,155	---	---
Licenses and Permits	21,650	---	---
Fines and Forfeitures	20,314	---	---
Charges for Services	130,035	193,513	---
Interest and Rentals	39,591	3,899	19,278
Contributions From Local Units	---	---	---
Other	429,571	4,255	---
Ambulance Loan Proceeds	---	140,000	---
	<u>1,544,596</u>	<u>437,011</u>	<u>358,225</u>
<b>Total Revenue</b>			
	<u>1,544,596</u>	<u>437,011</u>	<u>358,225</u>
<b><u>EXPENDITURES</u></b>			
Current:			
General Government	364,971	---	46,677
Public Safety	311,044	234,979	---
Public Works	549,045	---	---
Community Economic Development	1,803	---	---
Recreation and Culture	---	---	---
Capital Outlay	70,121	142,849	---
Other Functions	148,099	---	---
Debt Service:			
Principal Payments	---	19,479	---
Interest Payments	---	3,823	---
	<u>1,445,083</u>	<u>401,130</u>	<u>46,677</u>
<b>Total Expenditures</b>			
	<u>1,445,083</u>	<u>401,130</u>	<u>46,677</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	99,513	35,881	311,548
<b>Other Financing Sources (Uses)</b>			
Transfers In	35,000	---	---
Transfers Out	(150,932)	---	(334,277)
	<u>(115,932)</u>	<u>---</u>	<u>(334,277)</u>
<b>Total Other Financing Sources (Uses)</b>			
	<u>(115,932)</u>	<u>---</u>	<u>(334,277)</u>
<b>Net Change In Fund Balances (Decrease)</b>	(16,419)	35,881	(22,729)
<b>Fund Balances – Beginning of Year</b>	<u>657,448</u>	<u>83,505</u>	<u>487,066</u>
<b>Fund Balances – End of Year</b>	\$ <u>641,029</u>	\$ <u>119,386</u>	\$ <u>464,337</u>

The notes to financial statements are an integral part of this statement.

<b>Major Street Fund</b>	<b>Local Street Fund</b>	<b>Other Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ ---	\$ ---	\$ 23,722	\$1,076,871
132,819	47,033	3,467	466,741
4,339	1,628	143,649	150,771
---	---	---	21,650
---	---	27,458	47,772
---	---	115,966	439,514
2,335	297	35,736	101,136
---	---	3,500	3,500
---	8,188	35,667	477,681
---	---	---	140,000
<u>139,493</u>	<u>57,146</u>	<u>389,165</u>	<u>2,925,636</u>
---	---	29,276	440,924
---	---	65,185	611,208
107,156	66,801	---	723,002
---	---	11,162	12,965
---	---	227,873	227,873
19,789	4,204	180,942	417,905
---	---	---	148,099
---	---	85,000	104,479
---	---	15,865	19,688
<u>126,945</u>	<u>71,005</u>	<u>615,303</u>	<u>2,706,143</u>
12,548	(13,859)	(226,138)	219,493
100,000	60,500	198,932	394,432
<u>(30,500)</u>	<u>---</u>	<u>---</u>	<u>(515,709)</u>
<u>69,500</u>	<u>60,500</u>	<u>198,932</u>	<u>(121,277)</u>
82,048	46,641	(27,206)	98,216
<u>85,917</u>	<u>27,359</u>	<u>570,348</u>	<u>1,911,643</u>
<u>\$167,965</u>	<u>\$ 74,000</u>	<u>\$ 543,142</u>	<u>\$2,009,859</u>

**CITY OF HUDSON, MICHIGAN**  
**Reconciliation Of The Statement Of Revenues, Expenditures,**  
**And Changes In Fund Balances Of Governmental Statement Of Activities**  
**June 30, 2007**

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**Net Change In Fund Balances – Total Governmental Funds**

\$ 116,492

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

<b>Add:</b>	Capital Outlay	322,143
<b>Deduct:</b>	Depreciation Expense	(365,899)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increase long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

<b>Add:</b>	Principal payments on long-term liabilities	104,479
<b>Deduct:</b>	Loan proceeds for ambulance purchase	(140,000)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

<b>Add:</b>	Decrease in interest payable on bonds and notes	169
<b>Deduct:</b>	(Increase) in compensated absences long-term	(13,544)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

<b>Add:</b>	Increase in net assets of governmental activities accounted for in the internal service fund	38,035
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Revenue deferred on the governmental funds report, which has been charged to receivable and thus income on the statement of activities.

(15,973)

**Change In Net Assets Of Governmental Activities**

\$ 45,902

**CITY OF HUDSON, MICHIGAN**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2007**

	<b>Business-Type Activities - Enterprise Funds</b>	<b>Governmental Activities</b>
	<b><u>Utilities Fund</u></b>	<b><u>Internal Service Fund</u></b>
<b>Assets</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 54,671	\$ 58,975
Due from Other Funds	229	---
Accounts Receivable	113,880	2,275
Inventory	14,068	---
Prepaid Interest	3,363	---
Noncurrent Assets:		
Restricted Cash	14,878	---
Property and Equipment - Net	4,496,723	93,731
<b>Total Noncurrent Assets</b>	<u>4,511,601</u>	<u>93,731</u>
<b>Total Assets</b>	<u>\$4,697,812</u>	<u>\$154,981</u>
<b>Liabilities</b>		
Current Liabilities:		
Due to Other Funds	\$ ---	\$ ---
Accounts Payable and Accrued Liabilities/Deposits	18,815	---
Accrued Equipment Rent	702	---
Bonds Payable, Current Portion	75,000	---
<b>Total Current Liabilities</b>	<u>94,517</u>	<u>---</u>
Noncurrent Liabilities:		
Bonds Payable	1,371,665	---
Compensated Absences	2,610	---
<b>Total Noncurrent Liabilities</b>	<u>1,374,275</u>	<u>---</u>
<b>Total Liabilities</b>	<u>1,468,792</u>	<u>---</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	3,050,058	93,731
Restricted for Replacement	14,878	---
Unrestricted (Deficit)	164,084	61,250
<b>Total Net Assets</b>	<u>3,229,020</u>	<u>\$154,981</u>
<b>Adjustment to Reflect The Consolidation of Internal Service Fund Activities Related to Enterprise Funds</b>	<u>5,484</u>	
<b>Net Assets of Business-Type Activities on the Government-Wide Statement of Net Assets</b>	<u>\$3,234,504</u>	

**CITY OF HUDSON, MICHIGAN**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For The Year Ended June 30, 2007**

	<b>Business-Type Activities - Enterprise Funds</b>	<b>Governmental Activities</b>
	<b><u>Utilities Fund</u></b>	<b><u>Internal Service Fund</u></b>
<b>Operating Revenues</b>		
Charges for Services	\$ 413,163	\$ 81,474
<b>Liabilities</b>		
Salaries and Wages	88,802	---
Fringe Benefits	43,564	---
Office Expenses	178,358	11,149
Contractual Services	12,815	103
Supplies and Materials	90,759	30,426
Utilities	71,283	---
Depreciation	221,262	19,768
Other Expenses	1,689	142
<b>Total Operating Expenses</b>	<u>708,532</u>	<u>61,588</u>
<b>Operating Income (Loss)</b>	<u>(295,369)</u>	<u>19,886</u>
<b>Non-Operating Revenues (Expenses)</b>		
Investment Income	11,818	390
Interest Expense	(37,395)	---
Other - Miscellaneous	17,170	3,484
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(8,407)</u>	<u>3,874</u>
<b>Other Financing Sources</b>		
Transfer In	121,277	---
<b>Total Other Financing Sources</b>	<u>121,277</u>	<u>---</u>
<b>Income (Loss)</b>	(182,499)	23,760
<b>Net Assets, Beginning of Year</b>	<u>3,411,519</u>	<u>131,221</u>
<b>Net Assets, End of Year</b>	<u>\$3,229,020</u>	<u>\$154,981</u>



**CITY OF HUDSON, MICHIGAN**  
**Reconciliation Of The Statement Of Revenues, Expenditures, To The Statement Of Activities**  
**June 30, 2007**

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<b>Change In Net Assets – All Enterprise Funds</b>	\$(182,499)
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An internal service fund is used by management to charge the cost of certain equipment usage to individual enterprise funds. The net revenue (expense) attributable to those funds is reported with the business-type activities

<u>5,484</u>
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<b>Change In Net Assets Of Business-Type Activities</b>	\$(177,015)
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**CITY OF HUDSON, MICHIGAN**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For The Year Ended June 30, 2007**

	<b>Business-Type Activities Enterprise Funds</b>	<b>Governmental Activities</b>
	<b><u>Utilities Fund</u></b>	<b><u>Internal Service Fund</u></b>
<b>Cash Flows From Operating Activities</b>		
Cash Received from Customers	\$ 466,851	\$ ---
Cash Received Miscellaneous	---	83,216
Cash Payment to Suppliers For Goods and Services/Employees	<u>(492,994)</u>	<u>(41,820)</u>
<b>Net Cash Provided (Used)</b>	<u>(26,143)</u>	<u>41,396</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Purchase of Capital Assets	(14,256)	---
Bond Principal Payments	(75,000)	---
Bond Interest Payments	<u>(37,104)</u>	<u>---</u>
<b>Net Cash (Used) by Capital and Related Financing Activities)</b>	<u>(126,360)</u>	<u>---</u>
<b>Cash Flows From Investing Activities</b>		
Investment Income	11,818	390
Transfers from Other Funds	<u>161,277</u>	<u>(40,000)</u>
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>173,095</u>	<u>(39,610)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	20,592	1,786
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>48,957</u>	<u>57,189</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 69,549</u>	<u>\$ 58,975</u>
<b>Reconciliation to Statement of Net Assets</b>		
Cash and Cash Equivalents	\$ 54,671	\$ 58,975
Restricted Cash and Cash Equivalents	<u>14,878</u>	<u>---</u>
	<u>\$ 69,549</u>	<u>\$ 58,975</u>

**CITY OF HUDSON, MICHIGAN**  
**Statement of Cash Flows (Concluded)**  
**Proprietary Funds**  
**For The Year Ended June 30, 2007**

	<b>Business-Type Activities - Enterprise Funds</b>	<b>Governmental Activities</b>
	<b><u>Utilities Fund</u></b>	<b><u>Internal Service Fund</u></b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>		
Operating Income (Loss)	\$ (182,499)	\$ 23,760
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation/Amortization	221,262	19,768
Changes in Assets and Liabilities:		
Accounts Receivable, Etc.	36,518	(1,742)
Accounts Payable, Accrued Liabilities, Bonds Current Portion	(6,617)	(40,000)
Other Assets	<u>40,841</u>	<u>---</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>109,505</u>	<u>1,786</u>
<b>Cash Flows from Capital Activities:</b>		
Acquisition of Capital Assets	<u>(14,256)</u>	<u>---</u>
<b>Net Cash (Used) from Capital Activities</b>	<u>(14,256)</u>	<u>---</u>
<b>Cash Flows From Financing Activities:</b>		
Principal Paid on Bonds	(75,000)	---
Compensated Absences	<u>343</u>	<u>---</u>
<b>Net Cash (Used) from Financing Activities</b>	<u>(74,657)</u>	<u>---</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	20,592	1,786
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>48,957</u>	<u>57,189</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 69,549</u>	<u>\$ 58,975</u>

**CITY OF HUDSON, MICHIGAN**  
**Fiduciary Funds – Statement of Net Assets**  
**June 30, 2007**

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	<b><u>Employee Benefit Funds</u></b>	<b><u>Library Trust</u></b>	<b><u>Other Agency Funds</u></b>
<b><u>Assets</u></b>			
Cash and Cash Equivalents	\$ 434	\$94,753	\$50,371
<b>Total Assets</b>	\$ 434	\$94,753	\$50,371
<b><u>Liabilities</u></b>			
Other Payables	\$ 434	\$ ---	\$50,371
<b>Total Liabilities</b>	\$ 434	---	\$50,371
<b><u>Net Assets</u></b>			
Held In Trust for Library Operations		\$94,753	

**CITY OF HUDSON, MICHIGAN**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds – Library Trust Fund**  
**For The Year Ended June 30, 2007**

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**Additions**

Investment Income:	
Interest Earned	\$ 1,504
Contributions	<u>15,776</u>
<b>Total Investment Income</b>	<u>17,280</u>

**Deductions**

Library Books and Expense	<u>13,394</u>
<b>Total Deductions</b>	<u>13,394</u>

**Excess Additions Over Deductions** 3,886

**Net Assets Held in Trust, Beginning of Year** 90,867

**Net Assets Held in Trust, End of Year** \$94,753

**CITY OF HUDSON, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2007**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Hudson, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

**A. Reporting Entity**

City of Hudson, Michigan is governed by an elected council. The accompanying financial statements present the government for which government is considered to be financially accountable.

Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

**Discretely Presented Component Units** - The local development Finance Authority of the City of Hudson, Michigan (LDFA) is governed by a board consisting of members appointed by the City Manager (subject to City Council approval). The LDFA was formed to promote economic growth in the City of Hudson, Michigan pursuant to Public Act 281 of 1986. The City also has a downtown development authority.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CITY OF HUDSON, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2007**

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Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise taxes, intergovernmental revenue licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

**The General Fund** is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**The Ambulance Fund** is a special Revenue Fund that receives monies for contractual services and charges for the purpose of providing Advanced and Basic Life Support Services to the community.

**The Income Tax Fund** is a Special Revenue Fund that receives monies from residents, non-residents and businesses performing or operating within the City limits of Hudson, Michigan. These monies have been used for special projects, capital in nature.

**The Major Street Fund** is a Special Revenue Fund that receives state and local funding for the purpose of construction and maintenance of City streets designated as major streets under State of Michigan Act 51 of Public Acts of 1951.

**The Local Street Fund** is a Special Revenue Fund that receives state and local funding for the purpose of construction and maintenance of City streets designated as local streets under State of Michigan Act 51 of Public Acts of 1951.

The government reports the following major proprietary funds:

The Utilities Fund accounts for acquisition, operation and maintenance of the City's waste water and water system.

Additionally, the government reports the following fund types:

The Agency Funds account for assets held by the City acting as an agent for individuals, private organizations, other governments and/or other funds.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-side and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities and enterprise funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**CITY OF HUDSON, MICHIGAN**  
**Notes to Financial Statements**  
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Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary Funds distinguish operating revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities Funds are charges to customers for sales and services. The Utilities Funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **D. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **E. Assets, Liabilities, and Net Assets or Equity**

1. **Bank Deposits and Investment** – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loans associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

2. **Receivables and Payables** – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."
3. **Prepaid Items** – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements using the consumption method.
4. **Inventories** – All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.



**CITY OF HUDSON, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2007**

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5. **Restricted Assets** – Certain proceeds of enterprise fund revenue bonds and general obligations bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The bond interest and redemption account is used to segregate resources accumulated for debt service payments. The bond reserve account is used to report resources set aside to make debt service payment on bonds which would otherwise be in default. The replacement account is used to report resources set aside to make major repairs and replacements to fixed operation assets of the enterprise fund.
6. **Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., road, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,500 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<b><u>Assets</u></b>	<b><u>Years</u></b>
Land Improvements	20 - 50
Building	10 - 50
Machinery, Equipment, And Furnishings	5 - 35
Utility Systems	50 - 100
Infrastructure	15 - 100
Vehicles	5 - 15

7. **Compensated Absences** – It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirement.
8. **Long-Term Obligations** – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources.

**CITY OF HUDSON, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2007**

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Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

9. **Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

- A. **Budgetary Information** – Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before the end of May of each year, the City Manager presents the proposed budget for review and holds public hearings and a final budget is adopted.

The appropriated budget is prepared by fund, function and activity. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is with the City Council.

- B. **Excess of Expenditures Over Appropriations In Budgeted Funds** - P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2007, the government incurred expenditures in excess of amounts appropriated at the legal level of budgetary control as follows:

	<b><u>Amended Budget</u></b>	<b><u>Actual</u></b>	<b><u>Variance</u></b>
General Fund:			
General Government:			
City Attorney	\$ 9,250	\$ 10,865	\$ 1,615
Clerk	68,162	75,150	6,988
City Council	14,098	20,111	6,013
Office Operations	97,764	98,386	622
Building and Grounds	13,900	14,629	729
Capital Outlay	63,000	70,121	7,121
Public Works:			
Street Maintenance	420,415	451,444	31,029
Ambulance - Major Fund:			
Capital Outlay	5,500	142,849	137,349
Income Tax - Major Fund:			
Transfers to Other Funds	304,277	334,277	30,000
Local Street - Major Fund:			
Capital Outlay	4,074	4,204	130

**CITY OF HUDSON, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2007**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

The government unit's deposits and investment policy are in accordance with statutory authority.

Investments made by the City are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

- Category 1:** Insured or registered, or securities held by the City or its agent in the City's name.
- Category 2:** Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3:** Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

	<b>Category <u>1</u></b>	<b><u>2</u></b>	<b><u>3</u></b>	<b>Carrying Value</b>	<b>Market Value</b>
Checking, Certificate of Deposit and Savings	\$300,000	\$2,300,049	\$ ---	\$2,600,049	\$2,600,049
	<u>\$300,000</u>	<u>\$2,300,049</u>	<u>\$ ---</u>	<u>\$2,600,049</u>	<u>\$2,600,049</u>

**Balance Sheet Cash And Cash Investments**

The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosures for the City's deposits are as follows:

<b><u>Deposits</u></b>	<b>Carrying Amount</b>
Insured (FDIC) (FSLIC)	\$ 300,000
Uninsured:	
Uncollateralized	<u>2,300,049</u>
<b>Total</b>	<u>\$2,600,049</u>

Total cash consist of: Cash and cash investments of \$2,001,204 and restricted cash of \$14,878, Component Unit Cash of \$438,409 and Agency Funds Cash of \$145,558.

**CITY OF HUDSON, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2007**

**NOTE 4 – CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2007 was as follows:

	<b><u>Beginning Balance</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Ending Balance</u></b>
<b><u>Governmental Activities</u></b>				
Capital Assets, Not Being Depreciated:				
Other	\$ 150,000	\$ ---	\$ ---	\$ 150,000
	<u>150,000</u>	<u>---</u>	<u>---</u>	<u>150,000</u>
Capital Assets, Being Depreciated:				
Buildings	1,676,732	43,769	---	1,720,501
Vehicles	1,495,657	41,149	---	1,536,806
Equipment	1,392,106	213,232	21,206	1,584,132
Infrastructure	3,934,498	23,993	---	3,958,491
<b>Total Capital Assets Being Depreciated</b>	<u>8,498,993</u>	<u>322,143</u>	<u>21,206</u>	<u>8,799,930</u>
Less Accumulated Depreciation For:				
Buildings	(609,256)	(36,269)	---	(645,525)
Vehicles	(591,607)	(85,356)	---	(676,963)
Equipment	(871,893)	(85,798)	---	(936,485)
Infrastructure	(2,341,454)	(158,476)	---	(2,499,930)
<b>Total Accumulated Depreciation</b>	<u>(4,414,210)</u>	<u>(365,899)</u>	<u>---</u>	<u>(4,758,903)</u>
<b>Total Capital Assets, Being Depreciated, Net</b>	<u>4,084,783</u>	<u>(43,756)</u>	<u>---</u>	<u>4,041,027</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 4,234,783</u>	<u>\$ (43,756)</u>	<u>\$ ---</u>	<u>\$ 4,191,027</u>
<b><u>Business-Type Activities</u></b>				
Capital Assets, Not Being Depreciated:				
Land	\$ 33,600	\$ ---	\$ ---	\$ 33,600
	<u>33,600</u>	<u>---</u>	<u>---</u>	<u>33,600</u>
Capital Assets, Being Depreciated:				
Buildings and Systems	8,298,884	14,256	---	8,313,140
Equipment	410,461	---	---	410,461
<b>Total Capital Assets Being Depreciated</b>	<u>8,709,345</u>	<u>14,256</u>	<u>---</u>	<u>8,723,601</u>
Less Accumulated Depreciation For:				
Buildings	(3,757,999)	(211,438)	---	(3,969,437)
Equipment	(281,217)	(9,824)	---	(291,041)
<b>Total Accumulated Depreciation</b>	<u>(4,039,216)</u>	<u>(221,262)</u>	<u>---</u>	<u>(4,260,478)</u>
<b>Total Capital Assets, Being Depreciated, Net</b>	<u>4,670,129</u>	<u>(207,006)</u>	<u>---</u>	<u>4,463,123</u>
<b>Business Type Activities Capital Assets, Net</b>	<u>\$ 4,703,729</u>	<u>\$ (207,006)</u>	<u>\$ ---</u>	<u>\$ 4,496,723</u>

**CITY OF HUDSON, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2007**

Depreciation expense was charged to functions/programs of the City as follows:

**Governmental Activities:**

General Government	\$ 42,483
Public Safety	130,443
Public Works	157,677
Culture and Recreation	15,528
Capital Assets Held By The Government's Internal Service Funds Are Charged To The Various Functions Based On Their Usage Of The Assets.	<u>19,768</u>

<b>Total Depreciation Expense Governmental Activities</b>	<b><u>\$365,899</u></b>
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**Business-Type Activities:**

Utilities	<u>\$221,262</u>
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<b>Total Depreciation Expense Business-Type Activities</b>	<b><u>\$221,262</u></b>
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**NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES**

At June 30, 2007, the following were interfund receivables and payables in the fund statement.

<b><u>Fund</u></b>	<b><u>Interfund Receivables</u></b>	<b><u>Interfund Payables</u></b>
General	\$2,966	\$ ---
Benefit	---	476
Utilities	229	---
Fire	---	467
Debt Service Fund	4,712	---
Ambulance	<u>---</u>	<u>6,964</u>
	<u>\$7,907</u>	<u>\$7,907</u>

**CITY OF HUDSON, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2007**

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**NOTE 6 – TRANSFERS**

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted, to or allowed for debt services from the funds collecting the receipts to the debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs, accounted for in other funds in accordance with budgetary authorizations.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Summer Recreation	\$ 10,000	\$ ---
General	35,000	150,932
Income Tax	---	334,277
Major Street	100,000	30,500
Local	60,500	---
Library	126,523	---
Utilities	121,277	---
Fire	31,260	---
Cemetery	7,649	---
Community Center	23,000	---
Museum	500	---
	<u>\$515,079</u>	<u>\$515,079</u>

**NOTE 7 – PROPERTY TAXES:**

The City bills and collects its own property taxes and also taxes for the County and several School Districts within its jurisdiction. Collections and remittances of the County and School taxes are accounted for in the Current Tax Collection Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied to the extent that they result in current receivables.

Property taxes are assessed December 31<sup>st</sup> and are levied on June 1<sup>st</sup>. Taxes become delinquent on August 31<sup>st</sup> with a 1% interest charge beginning October 1<sup>st</sup>. All delinquent taxes are charged with a 4% penalty.

The City currently levies 10.6419 mills. Property taxes attach as an enforceable lien on the property as of January 1.

**CITY OF HUDSON, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2007**

**NOTE 8 – LONG TERM DEBT**

Long-term debt consists of the following:

	<b><u>Balance</u></b> <b><u>July 1,</u></b> <b><u>2006</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>Balance</u></b> <b><u>June 30,</u></b> <b><u>2007</u></b>
Bonds Payable - 2004 Local Development Refunding Bonds - General Obligation Limited Tax	\$ 465,000	\$ ---	\$ 85,000	\$ 380,000
Bonds Payable - 2001 Drinking Water Program	1,521,665	---	75,000	1,446,665
Compensated Absences	15,060	28,604	15,060	28,604
Note Payable - Ambulance	---	140,000	19,479	120,521
<b>Total</b>	<b><u>\$2,001,725</u></b>	<b><u>\$168,604</u></b>	<b><u>\$194,539</u></b>	<b><u>\$1,975,790</u></b>

**Ambulance – Type III – 164 Commando**

**Title of Issue:** Ambulance - Note Payable - Hillsdale County National Bank  
**Purpose:** Purchase Ambulance  
**Date of Note:** August 1, 2006  
**Maturity of Note:** March 15, 2013  
**Interest Rate:** 4.35%  
**Payments:** Annually at \$23,302 including interest - starting March 15, 2007  
**Amount of Note:** \$140,000

<b><u>Due Date</u></b>	<b><u>Total</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>
March 15, 2008	\$ 23,302	\$ 5,321	\$ 17,981
March 15, 2009	23,302	4,527	18,775
March 15, 2010	23,302	3,698	19,604
March 15, 2011	23,302	2,832	20,470
March 15, 2012	23,302	1,929	21,373
March 15, 2013	23,302	984	22,318
	<b><u>\$139,812</u></b>	<b><u>\$19,291</u></b>	<b><u>\$120,521</u></b>

**CITY OF HUDSON, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2007**

**City of Hudson – Drinking Water Bond Issue**

**Title of Issue:** City of Hudson Drinking Water Program General  
Obligation Bonds

**Purpose:** Drinking Water, etc.

**Date of Issue:** June 28, 2001

**Interest Rate:** 2.50%

**Interest Payable:** Semi-Annual on October 1, and April 1, of each year

**Amount of Issue:** \$1,731,665

**Available Funds:** \$38,335

<b><u>Due Dates</u></b>	<b><u>Total</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>
October 1, 2007	\$ 92,308	\$ 17,308	\$ 75,000
April 1, 2008	16,370	16,370	
October 1, 2008	96,370	16,370	80,000
April 1, 2009	15,370	15,370	
October 1, 2009	95,370	15,370	80,000
April 1, 2010	14,370	14,370	
October 1, 2010	94,370	14,370	80,000
April 1, 2011	13,370	13,370	
October 1, 2011	98,370	13,370	85,000
April 1, 2012	12,308	12,308	
October 1, 2012	97,308	12,308	85,000
April 1, 2013	11,245	11,245	
October 1, 2013	101,245	11,245	90,000
April 1, 2014	10,120	10,120	
October 1, 2014	100,120	10,120	90,000
April 1, 2015	8,995	8,995	
October 1, 2015	103,995	8,995	95,000
April 1, 2016	7,808	7,808	
October 1, 2016	102,808	7,808	95,000
April 1, 2017	6,620	6,620	
October 1, 2017	106,620	6,620	100,000
April 1, 2018	5,370	5,370	
October 1, 2018	105,370	5,370	100,000
April 1, 2019	4,120	4,120	
October 1, 2019	109,120	4,120	105,000
April 1, 2020	2,870	2,870	
October 1, 2020	107,870	2,870	105,000
April 1, 2021	1,495	1,495	
October 1, 2021	111,495	1,495	110,000
April 1, 2022	120	120	
October 1, 2022	71,785	120	71,665
	<u>\$1,725,075</u>	<u>\$278,410</u>	<u>\$1,446,665</u>



**CITY OF HUDSON, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2007**

**Industrial Park Bonds**

**Title of Issue:** 2004 Local Development Refunding Bonds - General Obligation Limited Tax  
**Purpose:** Park Development  
**Date of Issue:** December 1, 2004  
**Maturity Date:** June 1, 2012  
**Interest Rate:** 1.5% to 3.875%  
**Interest Payable:** Semi-Annually  
**Amount of Issue:** \$590,000

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
December 1, 2007	\$ 6,683	\$ 6,683	\$
June 1, 2008	86,683	6,683	80,000
December 1, 2008	5,543	5,543	
June 1, 2009	85,543	5,543	80,000
December 1, 2009	4,263	4,263	
June 1, 2010	4,263	4,263	---
December 1, 2010	4,263	4,263	
June 1, 2011	4,263	4,263	---
December 1, 2011	4,263	4,263	
June 1, 2012	<u>224,263</u>	<u>4,263</u>	<u>220,000</u>
	\$430,030	\$50,030	\$380,000

**Maturities of Long-Term Debt**

Maturities for the next five years of long-term debt are as follows:

<u>Years</u>	<u>Amounts</u>
2008	\$ 172,981
2009	178,775
2010	99,604
2011	105,470
2012	326,373
There After	<u>1,092,587</u>
	<u>\$1,975,790</u>

**CITY OF HUDSON, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2007**

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**NOTE 9 – CAFETERIA PLAN – MEDICAL REIMBURSEMENT PLAN – DEPENDENT CARE PLAN**

The City of Hudson has approved and adopted the Cafeteria Plan, Medical Expense Reimbursement Plan and Dependent Care Assistance Plan to be effective January 1, 1998.

The City of Hudson adopted a Cafeteria Plan under Internal Revenue Service Code SS 125, a Medical Expense Reimbursement Plan under code SS 105 (b) and an Dependent Care Assistance Plan Under Code SS 129. Each full-time employee is eligible to participate in each of the plans established. The maximum reimbursement for which any participant may apply under the Medical Expense Reimbursement Plan is \$3,000. The maximum reimbursement for which any participant may apply under the Dependent Care Assistance Plan is \$5,000.

The City of Hudson does not contribute to the Cafeteria Plan.

**NOTE 10 – PENSION PLAN**

The City of Hudson has a qualified 401(k) plan, administered by ICMA-RC.

Contributions are made by the City and employees. The Plan is blended between growth funds, cash management and government investments. Value in the 401k plan at December 31, 2006 was \$580,568. Contribution by the City for calendar year 2006 was \$48,666 and distribution was \$57,992.

**NOTE 11 – OTHER INFORMATION**

**Risk Management**

The government is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2007, the government carried insurance through various commercial carriers, to cover all risks of losses. The government has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

**CITY OF HUDSON, MICHIGAN**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For The Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<b><u>Beginning of Year Fund Balance</u></b>	\$ 657,448	\$ 657,448	\$ 657,448	\$ ---
<b><u>Resources (Inflows)</u></b>				
Taxes and Assessments	681,873	681,873	618,858	(63,015)
Intergovernmental	258,695	258,695	283,422	24,727
Grants	800	800	1,155	355
Licenses and Permits	17,700	17,700	21,650	3,950
Fines and Forfeitures	17,000	17,000	20,314	3,314
Charges for Services	113,650	113,650	130,035	16,385
Interest and Rentals	15,400	15,400	39,591	24,191
Other	431,800	431,800	429,571	(2,229)
Transfers from Other Funds	35,000	35,000	35,000	---
<b><u>Amounts Available for Appropriation</u></b>	<u>2,229,366</u>	<u>2,229,366</u>	<u>2,237,044</u>	<u>7,678</u>
<b><u>Charges to Appropriations (Outflows)</u></b>				
<b><u>General Government</u></b>				
City Council	14,098	14,098	20,111	(6,013)
City Manager	72,684	72,684	59,430	13,254
Office Operations	97,764	97,764	98,386	(622)
Treasurer	66,607	66,607	65,796	811
Assessing	16,800	16,800	15,896	904
Clerk	68,162	68,162	75,150	(6,988)
Elections	4,700	4,700	2,208	2,492
City Attorney/Auditing	11,750	11,750	13,365	(1,615)
Buildings and Grounds	13,900	13,900	14,629	(729)
<b><u>Public Safety</u></b>				
Police	341,180	341,180	304,074	37,106
Inspections	13,500	13,500	6,970	6,530
<b><u>Community Economic Development</u></b>	<u>3,267</u>	<u>3,267</u>	<u>1,803</u>	<u>1,464</u>
<b><u>Public Works</u></b>				
Sanitary Landfill	5,000	5,000	5,000	---
Street Maintenance & Lighting	420,415	420,415	451,444	(31,029)
Leaf Pickup	14,275	14,275	6,703	7,572
Refuse Collection	88,000	88,000	85,898	2,102
<b><u>Capital Outlay</u></b>	<u>63,000</u>	<u>63,000</u>	<u>70,121</u>	<u>(7,121)</u>
<b><u>Other Functions</u></b>	<u>149,684</u>	<u>149,684</u>	<u>148,099</u>	<u>1,585</u>
<b><u>Transfers to Other Funds</u></b>	<u>150,932</u>	<u>150,932</u>	<u>150,932</u>	<u>---</u>
<b><u>Total Charges to Appropriations</u></b>	<u>1,615,718</u>	<u>1,615,718</u>	<u>1,596,015</u>	<u>19,703</u>
<b><u>Ending of Year Fund Balance</u></b>	<u>\$ 613,648</u>	<u>\$ 613,648</u>	<u>\$ 641,029</u>	<u>\$ 27,381</u>

**CITY OF HUDSON, MICHIGAN**  
**Budgetary Comparison Schedule**  
**Ambulance Fund (Major Special Revenue Funds)**  
**For The Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<b><u>Beginning of Year Fund Balance</u></b>	\$ 13,750	\$ 13,750	\$ 83,505	\$ 69,755
<b><u>Resources (Inflows)</u></b>				
Taxes	111,545	111,545	95,344	(16,201)
Charges For Services	145,125	145,125	193,513	48,388
Other	1,000	1,000	4,255	3,255
Interest Income	100	100	3,899	3,799
Ambulance Loan Proceeds	<u>---</u>	<u>---</u>	<u>140,000</u>	<u>140,000</u>
 <b><u>Amounts Available for Appropriation</u></b>	 <u>271,520</u>	 <u>271,520</u>	 <u>520,516</u>	 <u>248,996</u>
 <b><u>Charges to Appropriations (Outflows)</u></b>				
<b><u>Public Safety</u></b>				
Ambulance	240,020	240,020	234,979	5,041
Capital Outlay	5,500	5,500	142,849	(137,349)
 Debt Service:				
Principle Payments	21,000	21,000	19,479	1,521
Interest Payments	<u>5,000</u>	<u>5,000</u>	<u>3,823</u>	<u>1,177</u>
 <b><u>Total Charges to Appropriations</u></b>	 <u>271,520</u>	 <u>271,520</u>	 <u>401,130</u>	 <u>(129,610)</u>
 <b><u>Ending of Year Fund Balance</u></b>	 <u>\$ ---</u>	 <u>\$ ---</u>	 <u>\$119,386</u>	 <u>\$ 119,386</u>

**CITY OF HUDSON, MICHIGAN**  
**Budgetary Comparison Schedule**  
**Income Tax Fund (Major Special Revenue Fund)**  
**For The Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<b><u>Beginning of Year Fund Balance</u></b>	\$ ---	\$ ---	\$ 487,066	\$487,066
<b><u>Resources (Inflows)</u></b>				
Taxes	400,000	400,000	338,947	(61,053)
Interest and Rentals	<u>4,000</u>	<u>4,000</u>	<u>19,278</u>	<u>15,278</u>
<b><u>Amounts Available for Appropriation</u></b>	<u>404,000</u>	<u>404,000</u>	<u>845,291</u>	<u>441,291</u>
<b><u>Charges to Appropriations (Outflows)</u></b>				
General Government	47,275	47,275	46,677	598
Transfers to Other Funds	<u>304,277</u>	<u>304,277</u>	<u>334,277</u>	<u>(30,000)</u>
<b><u>Total Charges to Appropriations</u></b>	<u>351,552</u>	<u>351,552</u>	<u>380,954</u>	<u>(29,402)</u>
<b><u>Ending of Year Fund Balance</u></b>	<u>\$ 52,448</u>	<u>\$ 52,448</u>	<u>\$ 464,337</u>	<u>\$411,889</u>

**CITY OF HUDSON, MICHIGAN**  
**Budgetary Comparison Schedule**  
**Major Street Fund (Major Special Revenue Fund)**  
**For The Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<b><u>Beginning of Year Fund Balance</u></b>	\$ 85,917	\$ 85,917	\$ 85,917	\$ ---
<b><u>Resources (Inflows)</u></b>				
Intergovernmental	110,000	110,000	125,346	15,346
Interest and Rentals	1,000	1,000	2,335	1,335
Other	35,500	35,500	11,812	(23,688)
Transfers from Other Funds	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>---</u>
 <b><u>Amounts Available for Appropriation</u></b>	 <u>332,417</u>	 <u>332,417</u>	 <u>325,410</u>	 <u>(7,007)</u>
 <b><u>Charges to Appropriations (Outflows)</u></b>				
Public Works	116,000	116,000	107,156	8,844
Transfers to Other Funds	30,500	30,500	30,500	---
Capital Outlay	<u>100,000</u>	<u>100,000</u>	<u>19,789</u>	<u>80,211</u>
 <b><u>Total Charges to Appropriations</u></b>	 <u>246,500</u>	 <u>246,500</u>	 <u>157,445</u>	 <u>89,055</u>
 <b><u>Ending of Year Fund Balance</u></b>	 <u>\$ 85,917</u>	 <u>\$ 85,917</u>	 <u>\$167,965</u>	 <u>\$ 82,048</u>

**CITY OF HUDSON, MICHIGAN**  
**Budgetary Comparison Schedule**  
**Local Street Fund (Major Special Revenue Fund)**  
**For The Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<b><u>Beginning of Year Fund Balance</u></b>	\$ 27,359	\$ 27,359	\$ 27,359	\$ ---
<b><u>Resources (Inflows)</u></b>				
Intergovernmental	35,500	35,500	47,033	11,533
Other	1,823	1,823	9,816	7,993
Transfers from Other Funds	60,500	60,500	60,500	---
Interest Income	---	---	297	297
<b><u>Amounts Available for Appropriation</u></b>	<u>125,182</u>	<u>125,182</u>	<u>145,005</u>	<u>19,823</u>
<b><u>Charges to Appropriations (Outflows)</u></b>				
Public Works	93,749	93,749	66,801	26,948
Capital Outlay	<u>4,074</u>	<u>4,074</u>	<u>4,204</u>	<u>(130)</u>
<b><u>Total Charges to Appropriations</u></b>	<u>97,823</u>	<u>97,823</u>	<u>71,005</u>	<u>26,818</u>
<b><u>Ending of Year Fund Balance</u></b>	<u>\$ 27,359</u>	<u>\$ 27,359</u>	<u>\$ 74,000</u>	<u>\$46,641</u>

**CITY OF HUDSON, MICHIGAN**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**June 30, 2007**

	<b><u>Special Revenue Funds</u></b>			
	<b><u>Downtown Development</u></b>	<b><u>Fire</u></b>	<b><u>Summer Recreation</u></b>	<b><u>Cemetery</u></b>
<b><u>Assets</u></b>				
Cash	\$12,067	\$148,949	\$12,072	\$46,181
Receivables:				
Interest	---	---	---	---
Prepaid Expenses	---	---	---	---
Due from Other Funds	---	370	---	---
<b>Total Assets</b>	<b><u>\$12,067</u></b>	<b><u>\$149,319</u></b>	<b><u>\$12,072</u></b>	<b><u>\$46,181</u></b>
<b><u>Liabilities and Fund Balances</u></b>				
<b><u>Liabilities</u></b>				
Accounts Payable	\$ ---	\$ 4,356	\$ 1,122	\$ ---
Deposits Payable	---	---	---	---
Accrued Liabilities	---	---	772	118
Deferred Revenues	---	1,864	---	13,000
Due to Other Funds	---	467	---	---
<b>Total Liabilities</b>	<b><u>---</u></b>	<b><u>6,687</u></b>	<b><u>1,894</u></b>	<b><u>13,118</u></b>
<b><u>Fund Balance</u></b>	<b><u>12,067</u></b>	<b><u>142,632</u></b>	<b><u>10,178</u></b>	<b><u>33,063</u></b>
<b>Total Liabilities And Fund Balances</b>	<b><u>\$12,067</u></b>	<b><u>\$149,319</u></b>	<b><u>\$12,072</u></b>	<b><u>\$46,181</u></b>

The notes to financial statements are an integral part of this statement.



<u>Special Revenue Funds</u>			<u>Debt Service Fund</u>	<u>Permanent Fund</u>	<u>Total Non-Major Governmental Funds</u>
<u>Community Center</u>	<u>Library</u>	<u>Museum</u>	<u>Debt Service</u>	<u>Cemetery Perpetual Care</u>	
\$2,460	\$136,419	\$122,453	\$121,304	\$1,730	\$603,635
22	691	888	---	9	1,610
---	---	---	---	---	370
---	---	---	4,712	---	4,712
<u>\$2,482</u>	<u>\$137,110</u>	<u>\$123,341</u>	<u>\$126,016</u>	<u>\$1,739</u>	<u>\$610,327</u>
\$ ---	\$ 508	\$ ---	\$ 39,673	\$ ---	\$ 45,659
2,375	---	---	---	---	2,375
54	2,876	---	---	---	3,820
---	---	---	---	---	14,864
---	---	---	---	---	467
<u>2,429</u>	<u>3,384</u>	<u>---</u>	<u>39,673</u>	<u>---</u>	<u>67,185</u>
<u>53</u>	<u>133,726</u>	<u>123,341</u>	<u>86,343</u>	<u>1,739</u>	<u>543,142</u>
<u>\$2,482</u>	<u>\$137,110</u>	<u>\$123,341</u>	<u>\$126,016</u>	<u>\$1,739</u>	<u>\$610,327</u>

**CITY OF HUDSON, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and Changes In Fund Balance**  
**Non-Major Governmental Funds**  
**For The Year Ended June 30, 2007**

**Special Revenue Funds**

	<b><u>Downtown Development</u></b>	<b><u>Fire</u></b>	<b><u>Summer Recreation</u></b>	<b><u>Cemetery</u></b>
<b><u>Revenues:</u></b>				
Taxes	\$23,722	\$ ---	\$ ---	\$ ---
Intergovernmental	---	---	---	---
Grants	---	143,649	---	---
Contribution from Local Units	---	---	---	---
Charges for Services	---	51,886	40,218	23,862
Fines and Forfeits	---	---	---	---
Interest and Rents	90	5,191	223	551
Other Revenue	---	11,890	5,621	---
	<u>23,812</u>	<u>212,616</u>	<u>46,062</u>	<u>24,413</u>
<b>Total Revenue</b>				
	<u>23,812</u>	<u>212,616</u>	<u>46,062</u>	<u>24,413</u>
<b><u>Expenditures:</u></b>				
General Government	---	---	---	29,276
Public Safety	---	65,185	---	---
Recreational and Cultural	---	---	56,868	---
Community Economic Development	3,818	---	---	---
Capital Outlay	10,204	148,482	---	---
Debt Service:				
Principal	---	---	---	---
Interest	---	---	---	---
	<u>14,022</u>	<u>213,667</u>	<u>56,868</u>	<u>29,276</u>
<b>Total Expenditures</b>				
	<u>14,022</u>	<u>213,667</u>	<u>56,868</u>	<u>29,276</u>
<b><u>Excess of Revenues Over</u></b>				
<b><u>(Under) Expenditures</u></b>	<u>9,790</u>	<u>(1,051)</u>	<u>(10,806)</u>	<u>(4,863)</u>
<b><u>Other Financing Sources</u></b>				
<b><u>(Uses):</u></b>				
Operating Transfers In	---	31,260	10,000	7,649
Operating Transfers (Out)	---	---	---	---
	<u>---</u>	<u>31,260</u>	<u>10,000</u>	<u>7,649</u>
<b>Total Other Financing</b>				
<b>Sources (Uses)</b>	<u>---</u>	<u>31,260</u>	<u>10,000</u>	<u>7,649</u>
<b><u>Excess of Revenues and Other</u></b>				
<b><u>Sources Over (Under)</u></b>				
<b><u>(Expenditures and Other Uses)</u></b>	<u>9,790</u>	<u>30,209</u>	<u>(806)</u>	<u>2,786</u>
<b><u>Beginning Fund Balance</u></b>	<u>2,277</u>	<u>112,423</u>	<u>10,984</u>	<u>30,277</u>
<b><u>Ending Fund Balance</u></b>	<u>\$12,067</u>	<u>\$142,632</u>	<u>\$ 10,178</u>	<u>\$33,063</u>

The notes to financial statements are an integral part of this statement.

<u>Special Revenue Funds</u>			<u>Debt Service Fund</u>	<u>Permanent Fund</u>	<u>Total Non-Major Governmental Funds</u>
<u>Community Center</u>	<u>Library</u>	<u>Museum</u>	<u>Debt Service</u>	<u>Cemetery Perpetual Care</u>	
\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ 23,722
---	3,467	---	---	---	3,467
---	---	---	---	---	143,649
---	3,500	---	---	---	3,500
---	---	---	---	---	115,966
---	27,458	---	---	---	27,458
13,986	7,736	7,866	28	65	35,736
47	10,452	7,657	---	---	35,667
<u>14,033</u>	<u>52,613</u>	<u>15,523</u>	<u>28</u>	<u>65</u>	<u>389,165</u>
---	---	---	---	---	29,276
---	---	---	---	---	65,185
16,440	142,178	12,387	---	---	227,873
---	---	---	7,344	---	11,162
22,256	---	---	---	---	180,942
---	---	---	85,000	---	85,000
---	---	---	15,865	---	15,865
<u>38,696</u>	<u>142,178</u>	<u>12,387</u>	<u>108,209</u>	<u>---</u>	<u>615,303</u>
<u>(24,663)</u>	<u>(89,565)</u>	<u>3,136</u>	<u>(108,181)</u>	<u>65</u>	<u>(226,138)</u>
23,000	126,523	500	---	---	198,932
---	---	---	---	---	---
<u>23,000</u>	<u>126,523</u>	<u>500</u>	<u>---</u>	<u>---</u>	<u>198,932</u>
(1,663)	36,958	3,636	(108,181)	65	(27,206)
<u>1,716</u>	<u>96,768</u>	<u>119,705</u>	<u>194,524</u>	<u>1,674</u>	<u>570,348</u>
\$ 53	\$133,726	\$123,341	\$ 86,343	\$1,739	\$ 543,142

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MEMBERS OF  
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& THE MICHIGAN ASSOCIATION OF C.P.A.'S

**August 10, 2007**

**Honorable Mayor and Members  
Of The City Council  
City of Hudson  
121 N. Church St.  
Hudson, Michigan 49247**

We have examined the financial statements of the City of Hudson, Michigan as of and for the year ended June 30, 2007 and have issued our report thereon dated August 10, 2007. As a part of our examination, we made a study and evaluation of the City's system of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. Under these standards, the purposes of such an evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statement and to assist the auditor in planning and performing his examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our examination of the financial statements made in accordance with auditing standards generally accepted in the United States of America, including the study and evaluation of the City's system of internal accounting control for the year ended June 30, 2007, that was made for the purpose set forth in the first paragraph of this report, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data.

Statement on Auditing Standards Pronouncement 112 requires us as auditors to communicate what we determine to be significant deficiencies and material weaknesses to management and those charged with governance in regards to internal control matters.

A significant deficiency is a control deficiency or combination of control deficiencies that creates the remote likelihood that a misstatement of the City's financial statements is more than inconsequential and will not be prevented or detected.

Based on the criteria we have no comments.

#### **OTHER MATTERS FOR CONSIDERATION**

These comments are not significant deficiencies but are suggestions to improve your existing accounting and control systems.

1. **BANK RECONCILIATIONS**

Adjustments need to be made monthly at the time the bank reconciliations are performed. Try to be more timely on reconciliations. If pooling creates continued problems, consider breaking down funds into certain bank accounts, etc.

2. **UTILITY RATES**

It will be necessary for the City to raise utility rates to cover costs of operations because of major losses from your industry base. This should be monitored annually and reviewed by the City Manager.

3. **BUDGETING**

Copy original budget at the beginning of the year and keep, so that the final budget which has adjustments can be compared to the original budget for GASB 34 requirements on major fund types.

4. **WITHHOLDING ACCOUNTS**

Be sure to reconcile balances owed, etc. and make appropriate adjustments.

5. **DOCUMENTATION**

We were unable to locate some invoices during our test of transaction work in the audit. We were able to satisfy ourselves as to the validation of the expenses and feel this was an isolated incident, however additional care should be made.

6. **AMBULANCE FUND**

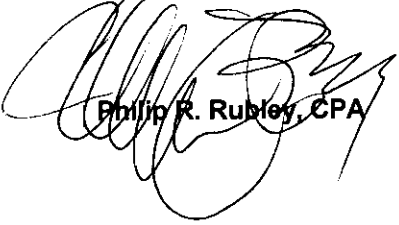
Periodical review of outstanding balances of accounts receivable should be made and a printout of aging accounts receivable balances should be maintained monthly supporting outstanding balances. Because of time sensitivity lost in collection will result without proper follow-up.

Honorable Mayor and Members  
Of The City Council  
August 10, 2007  
Page 3

The above mentioned conditions were considered in determining the nature, timing, and extent of audit tests to be applied to our examination of the financial statements, and this report does not modify our report dated August 10, 2007 on such financial statements.

If we can be of any further assistance, please do not hesitate in contacting us.

Respectfully Submitted,



Philip R. Rubley, CPA

PRR/cab